

agreements inspected at the Qwest BOC principal place of business to the copies of the tested agreements obtained above. Noted no exceptions.

Using the sample of 80 agreements selected in Procedure 4 above, documented in the working papers the dates when the agreements were signed and/or when the services were first rendered (whichever took place first) and the dates of posting on the Internet. Noted that eight of the 80 agreements tested were posted to the Qwest Internet site more than ten days after their test date.¹⁴ Attachment A-1 lists the eight affiliate agreements that were posted to the Internet more than ten days after their effective date. Requested the reasons as to why these late postings occurred and included Management responses received for each late posting in Attachment A-1.

In addition to the affiliate agreements tested above, Management disclosed additional affiliate agreements and/or amendments that were posted to the Internet more than ten days after their effective date during the Engagement Period. The listing of late postings disclosed by Management is shown at Attachment A-2.

Documented in the workpapers the procedures that the Section 272 Affiliates have in place for posting these transactions.

Noted that all the details needed to allow evaluation for compliance with the FCC's accounting rules were made available in these agreements. Noted that the Internet posting of the agreements included rates, terms, conditions, frequency, effective dates, termination dates, description of services and method of pricing. Noted that the Internet posting of affiliate agreements included the entire affiliate agreement and included sufficient detail to evaluate compliance with the FCC accounting rules. Noted that the Internet copy of the affiliate agreements does not include signatures.

6. Obtained a listing and dollar amounts of all non-tariffed services rendered by month by the Qwest BOC to each Section 272 Affiliate during the Audit Test Period and identified services made available to the Section 272 Affiliate that were not made available to third parties and which services were made available to both the Section 272 Affiliate and to third parties. Determined that the services not made available to third parties included only joint marketing activities.
 - a. Identified the following six services not made available to third parties (joint marketing) during the Audit Test Period:
 - Retail Markets Joint Marketing
 - National Consumer Markets Joint Marketing
 - Information Technologies Services

¹⁴ The test date of the agreement was determined as the earlier of the date the agreement was signed by all parties or the date that services were first rendered or provisioned under the agreement.

- Wholesale Sales
 - Business Markets Group Joint Marketing
 - Directory Assistance Promotional Brand
1. Randomly selected the months of February 2004, October 2004 and April 2005 for testing. For each month selected, obtained the billing records for all states from the Qwest BOC to the Section 272 Affiliates for the six services listed above. Determined from the billing records obtained that there were 42 total billed items for the six services during the selected months. Selected all billed items for testing. For each selected item, determined whether the amounts billed by the Qwest BOC were in accordance with the section 32.27, affiliate transactions rules of the Commission. Compared unit charge to Fully Distributed Cost (FDC) or Fair Market Value (FMV) as appropriate. Noted for the 42 billed items that the billed amounts were priced at the higher of FDC or FMV in accordance with the affiliate transaction standards and were recorded in the books of the Qwest BOC in accordance with the affiliate transaction standards, except as listed in Attachment A-3.
 2. For the 42 billed items tested in step 1, tested each transaction for the proper application of billing rates, including all applicable discounts, surcharges and late fees. Differences noted are listed on Attachment A-3.

Also tested that the billed amount was paid by the Section 272 Affiliate and recorded as expense by the Section 272 Affiliate. No differences were noted for the amounts paid and expensed by the Section 272 Affiliate. Obtained copies of relevant supporting documentation from the Section 272 Affiliate.

- b. From the services made available to both Section 272 Affiliates and to third parties:
 1. Obtained a listing of 47 services billed by month, by customer account. From this population, determined the following eleven services with the highest billing volume during the Audit Test Period:
 - Billing and Collections Services
 - Consulting and Support
 - Finance Services
 - Bill and Letter Printing and Processing
 - Support for Operator Services
 - Information Technologies Services
 - Space and Furniture Rental
 - CARE Product Agreement
 - Provision of Network Platform Services

- Dark Fiber Lease
 - Lease of Surplus Equipment
2. Randomly selected the months of June 2004, August 2004 and November 2004 for testing. For each month selected, obtained the billing records for all states from the Qwest BOC to the Section 272 Affiliates for the 11 services listed above. Noted that the service, Dark Fiber Lease, did not have any billed activity in the selected months. Also noted that Support for Operator Services (eight billed items), Provision of Network Platform Service (three billed items) and Lease of Surplus Equipment (three billed items) had less than 10 billed items during the selected months. Selected all 14 billed items for these services for testing. For the remaining seven services listed above, randomly selected 10 billed items for each service (70 billed items) plus 16 additional transactions from these services, for a total of 100 billed items selected for testing.

For the 100 billed items selected, determined whether the amounts recorded for the services in the books of the Qwest BOC were in accordance with the section 32.27, affiliate transactions rules of the Commission. Compared unit charge to FDC or FMV as appropriate. Noted for the 100 billed items that the billed amounts were priced at the higher of FDC or FMV in accordance with the affiliate transaction standards and were recorded in the books of the Qwest BOC in accordance with the affiliate transaction standards, except as listed in Attachment A-4. For each transaction tested for the proper application of billing rates, including all applicable discounts, surcharges and late fees. Differences noted are listed on Attachment A-4.

Also tested that the billed amount was recorded as revenue by the Qwest BOC, the billed amount was paid by the Section 272 Affiliate, the payment was recorded by the Qwest BOC and that the Section 272 Affiliate properly expensed the transaction. No differences were noted. Obtained copies of relevant supporting documentation from the Qwest BOC and Section 272 Affiliate.

7. Using the listing of services rendered by the Qwest BOC to the Section 272 Affiliates during the Audit Test Period, obtained in Procedure 6a and 6b above, identified the service, Consulting and Support, as including OI&M functions.
- a. Management represented the Qwest BOC started the provision of Consulting and Support services to QCC on June 7, 2004. Management also represented that these services were made available to third parties. Management represented that the Qwest BOC did not render any OI&M services to QLDC during the Audit Test Period.

- b. Determined that the Consulting and Support agreement became effective on June 16, 2004 and was posted to the Qwest Internet site on June 16, 2004. The Qwest BOC filed its corresponding Cost Allocation Manual amendment that with the FCC on May 5, 2004. This amendment became effective on May 5, 2004.
8. Obtained a listing of all services rendered by month during the Audit Test Period by QCC to the Qwest BOC and performed the following procedures. Management represented that no services were provided by QLDC to the Qwest BOC during the Audit Test Period.
 - a. Determined the 11 services, listed in Table 2 below, with the highest billing volume in dollars during the Audit Test Period. Randomly selected the months of November 2004, June 2005 and August 2005 for testing.

Table 2:

Top Eleven Services Billed by QCC to the Qwest BOC During the Audit Test Period

| Line | Service | System Used by QCC to Bill the Qwest BOC |
|------|---|--|
| 1 | Private Line- LI | LATIS – Non-Metered |
| 2 | LATIS Rebiller Switched Inbound | LATIS- Metered |
| 3 | Information Technologies Services ¹⁵ | BART |
| 4 | Private Line-LL | LATIS – Non-Metered |
| 5 | Space and Furniture Rental | BART |
| 6 | Lease of Fiber Optic Lines | BART |
| 7 | LATIS Rebiller Dedicated Outbound | LATIS- Metered |
| 8 | Access | LATIS – Non-Metered |
| 9 | LATIS Rebiller International | LATIS- Metered |
| 10 | Dedicated Services | LATIS – Non-Metered |
| 11 | Lease of Equipment, Space, and Power | BART |

For each month selected for testing, obtained the billing records for the services listed in Table 2 above. From the billing records obtained, randomly selected ten billing transactions for each service (13 transactions were selected for LATIS Rebiller Switched Inbound) with activity during November 2004,

¹⁵ Information Technologies Services had no billing activity during the months selected for testing.

June 2005 and August 2005, for a total of 103 billing transactions selected for testing. For the 103 transactions, determined that the transactions were recorded by the Qwest BOC in accordance with the affiliate transactions rules of the Commission (section 32.27) by comparing the unit charges to FDC, FMV or prevailing market price (PMP) as appropriate. Management represented that "there were no QCC assets or services provided to the Qwest BOC that were obtained from another nonregulated affiliate. In some cases, the Qwest BOC may purchase services from an affiliate that may utilize QCC services in the affiliate's operations or products, but Management does not believe such arrangements constitute 272 chaining transactions under existing FCC rules"

For the 103 transactions tested, noted the following differences that resulted in overbillings from QCC to the Qwest BOC:

- For one transaction, QCC overbilled the Qwest BOC by \$0.0189 per unit for 0.4 minutes, resulting in a total overbilling of \$0.01.
- For one transaction, QCC overbilled the Qwest BOC by \$0.0137 per unit for 0.9 minutes, resulting in a total overbilling of \$0.01.
- For one transaction, QCC overbilled the Qwest BOC by \$50. QCC billed the DS3 rate instead of a DS1 rate.
- For three transactions, QCC billed a monthly rate of \$4,500 instead of the correct rate of \$1,800 for two partial-month units and one monthly unit, resulting in a total overbilling for all three transactions of \$5,587.09.
- For three transactions, QCC billed a monthly rate of \$268 instead of the correct rate of \$150, resulting in an overbilling of \$354.
- For two transactions, QCC did not bill for channelized DS1 service that was provided with DS3 service. QCC corrected this underbilling in March 2005 and July 2005.
- Rates for three transactions were not tested as they were billings for circuits that were not covered in a task order (affiliate agreement).

Also tested that the transaction was recorded as an expense by the Qwest BOC and documented that amount paid by the Qwest BOC for each transaction. No differences were noted.

- b. For the 103 billing transactions tested in procedure a. above, tested that the transactions were properly recorded as revenue by QCC and that the billed amount was paid by the Qwest BOC. No differences were noted.

9. Using the Section 272 Affiliate's balance sheet and detailed fixed asset listings obtained in Objective I, Procedure 6 for any assets transferred from the Qwest BOC to the Section 272 Affiliates identified two computers were purchased by QCC from the Qwest BOC.
 - a. Inquired and documented that the Qwest BOC used the original cost of the computers as the transfer price to QCC instead of the higher of FMV or net book cost. The Qwest BOC also represented that when the Qwest BOC sold the two computers to QCC, the net book value was set equal to the original cost because at the time of sale it was within one year of purchase by the Qwest BOC. Noted that FMV was not required because the value of the assets was less than \$500,000.
 - b. The Qwest BOC represented that the two computers were not purchased or transferred from another affiliate.
 - c. Inquired of Management as to how the Qwest BOC provided an equal opportunity for non-affiliated entities to obtain ownership of the two computers. The Qwest BOC represented an equal opportunity was provided to non-affiliated entities by posting the two computers on the Qwest Internet site. Noted that the computers were posted to the Qwest Internet site on March 10, 2004. Noted that the transfer date for the computers (when the employees changed payroll from QC to QCC) was February 29, 2004. Noted that the journal entry was processed to move the computers from QC to QCC on March 16, 2004. The Qwest BOC represented that the assets were sold to QCC because the employees using the assets moved to QCC and, therefore QCC had a need for the computers.
10. Obtained a detailed listing as of September 30, 2005, of all fixed assets that were purchased or transferred from QCC to the Qwest BOC during the Audit Test Period. QLDC represented that it transferred no assets to the Qwest BOC during the Audit Test Period. The detailed listing obtained from QCC included 38 assets transferred to the Qwest BOC. QCC represented that it had originally purchased the 38 assets from third parties, none were transferred to QCC from another affiliate. Obtained the net book value and FMV for the 38 assets transferred and the Qwest BOC journal entries that recorded the asset transfers. Noted that all 38 assets were transferred from QCC and recorded by the Qwest BOC at the lower of net book value or FMV as required by section 32.27 of the Commission's rules.
11. The Qwest BOC represented that it did not provide to the Section 272 Affiliates any assets and/or services priced pursuant to section 252(e) or statements of generally available terms pursuant to section 252(f) during the Engagement Period.

12. The Qwest BOC represented that no part of the Qwest BOC's Official Services¹⁶ network was transferred or sold to a Section 272 Affiliate during the Engagement Period.

¹⁶ Official Services mean those services permitted by the United States District Court for the District of Columbia in *United States v. Western Electric Co. Inc.* See 569 F. Supp. 1057, 1098, n.179 (1983) (defined as "communications between personnel or equipment of an Operating Company located in various areas and communications between Operating Companies and their customers"), and its progeny.

OBJECTIVE VII. Determine whether or not the BOC has discriminated between the separate affiliate and any other entity in the provision or procurement of goods, services, facilities and information, or the establishment of standards.

1. Obtained the Qwest BOC's written procurement procedures. The written procedures state the company policy in regards to supplier preferences. The policy states that employees may not show preferences for or prejudices against any supplier, including QCC and suppliers will only be selected through objective evaluation. Technical and business specifications shall not be designed to create a preference for the products and services of a specific supplier. Employees shall not make any agreement with a supplier affecting competitive bids, terms of the bids, or the decision of the supplier to bid, nor place or appear to place, that supplier in a position of advantage as to other suppliers participating in the bid process. Furthermore, the written procedures specify that "Section 272(c)(1) of the Telecommunications Act, prohibits the BOC (QC) from discriminating between its 272 affiliate (QCC) and any other Interexchange carrier in the provision or procurement of goods, services, facilities, and information." This section requires that QC treat QCC the same as any other third-party vendor when procurement decisions are made so preferential treatment may not be given to QCC as a potential supplier to QC.

The written procedures also detail the bidding and selection process for the Qwest BOC. The procedures state that "a Business Unit shall define the business functionality and specifications for products and services and may provide a list of suppliers to be considered for and included in the Request for Proposal or Request for Information. Sourcing includes the evaluation and selection of the supplier and the negotiation of contract terms. The sourcing of all contracts, with exceptions, shall be managed by Procurement in conjunction with the applicable Business Unit, the Qwest Law department, and any applicable technical support groups." The written procedures detail the exceptions and special cases for acquiring products or services.

The written procedures further disclose how the Qwest BOC disseminates requests for proposals and evaluates the proposals. "Procurement has overall responsibility for the procurement process, including the final recommendation to the Business Unit on vendor selection. Sourcing decisions must be based on defined and objective evaluation criteria such as, but not limited to cost, timeliness, quality, product technical suitability, service, reputation of the supplier, and performance history. In addition, the Government Services Administration (GSA) maintains a list of firms who are ineligible to receive Government contracts because they have been suspended, debarred, or otherwise excluded from federal contracting. Competitive bids solicit proposals from multiple suppliers, which help to determine whether the supplier's products, services and technical/business functions are suitable to meet Qwest's business needs. Information used for the evaluation of supplier's products and services must be accurate, complete and documented in the contract file. Inclusion on the GSA list as suspended or debarred will

be one of the factors taken into consideration in all Qwest procurements. Employees shall not weight criteria to guarantee a predetermined outcome.”

2. Obtained a list of the Qwest BOC’s procurement awards to QCC during the Audit Test Period. The list contained nine procurement awards to QCC. The Qwest BOC represented that there were no procurement awards to QLDC during the Audit Test Period. For three of the nine awards to QCC, obtained copies of the bids submitted by QCC and third-party companies. Met with Qwest BOC management and discussed how the selections were made. In two of the three cases where bids were submitted, QCC was chosen over the other bidders because it offered the lowest overall bid. In the third case, QCC was chosen because its capabilities best matched the specifications required by the Qwest BOC. QCC was awarded the remaining six awards because it was the only potential provider of the service. Management represented that in cases where QCC was the sole bidder, there were no other quotes submitted. Management represented that all contracts awarded to the Section 272 Affiliates are posted on the Qwest Internet site. Table 3 below lists the details of the Qwest BOC procurement awards to QCC during the Audit Test Period.

Table 3:
Qwest BOC Procurement Awards to QCC

| Line | Service | Vendors | Bids | Reason Selected |
|------|---|---|---|--|
| 1 | Frame/ATM Disaster Recovery – Provide Trouble Ticket Status | QCC | \$7.99/Call | Due to the uniqueness of the systems necessary to support the FR/ATM customers (since internal system), QCC was the sole provider. |
| 2 | Dark Fibers for OR to WA | QCC Vendor 1 | \$3,373/mo \$5,415/mo | QCC was lowest bidder. |
| 3 | Dark Fibers for Salt Lake to Gunlock | QCC Vendor 2 Vendor 3 Vendor 1 Vendor 4 | \$11,157/mo \$28,640/mo No reply No reply \$25,200/mo | QCC was lowest bidder. |
| 4 | Integrated Management and Q Routing Platform for ACD | QCC | \$148,000/year | Correlates to QCC Wholesale offering, therefore other providers are not available. |
| 5 | Single point of contact for American Registry of Internet Numbers – Paying salary for a staff Internet engineer | QCC | \$87.43/hr | An individual is currently doing this function for QCC and will perform the function for all Qwest entities. Therefore, other providers were not considered. |
| 6 | 12 Dark Fibers at Highlands Ranch Cybercenter | QCC | \$3,000/month | QCC is the only vendor with fibers along this route. |
| 7 | Certain QCC information shared in employee newsletter and other employee communications | QCC | No charges applicable | QCC was the sole provider. |

| Line | Service | Vendors | Bids | Reason Selected |
|------|--|---------|-----------------------|--|
| 8 | QCC information shared with QC in staff meeting | QCC | No charges applicable | QCC was the sole provider. The information shared relates to staff meetings held between QC and QCC where the Vice President of Network and Information Technologies discussed ways to improve Qwest's customer performance. |
| 9 | QCC will provide management employees to QC in the case of a work stoppage | QCC | \$51.43/hr | QCC was the sole provider. |

The Qwest BOC disclosed the following two procurement awards dated prior to the Audit Test Period. These two awards were not disclosed in the prior report dated June 8, 2004.

- Reports Task Order, effective June 24, 2003, signed October 27, 2003 -- QCC provided Qwest BOC the use of information in order for QC to develop processes and procedures. QCC was the only vendor considered since the information needed was QCC information.
- Telecommunications Services Task Order, effective April 2003, signed February 27, 2004 -- QCC provided Direct Internet Access at the Denver airport Qwest business center. QCC was the only vendor considered since this service is provided in support of Qwest's joint marketing efforts.

3. Requested and obtained listings of all goods (including software), services, facilities and customer network services information, excluding CPNI as defined in Section 222(f)(1) of the Act, and exchange access services and facilities included in Objective IX, made available to the Section 272 Affiliates by the Qwest BOC. From these listings, created a listing of 186 services. For a random sample of 100 items from this list, requested copies of the media used by the Qwest BOC to inform non-affiliated entities of the availability of the same goods, services, facilities and information at the same price, and on the same terms and conditions. For the 100 sampled items, noted the following:

- For 91 of the 100 items, obtained and inspected a copy of the media used by the Qwest BOC to inform non-affiliated wholesale and large business entities of the availability of the same goods, services, facilities and information at the same price and on the same terms and conditions. The types of media obtained included Qwest Internet site references, public disclosures and tariff postings on the Qwest Internet site. Noted that these three media types were available to both affiliated and non-affiliated entities.

- For 9 of the 100 items, media was no longer available. Management represented that the nine services terminated in 2004 and the media was subsequently removed from the Qwest Internet site.
4. Randomly selected the months of June 2004, September 2004 and November 2004 for testing in this procedure.
- a. Obtained a listing of all goods (including software), services, facilities and customer network services information (excluding CPNI), and excluding exchange access services and interLATA services, (collectively referred to as "Other Services") purchased by the Section 272 Affiliates from the Qwest BOC for the Audit Test Period on January 17, 2006, and similar supplemental listing on February 20, 2006. From these two listings, determined the 13 services with the highest volume billed to non-affiliated third parties during the Audit Test Period. The selected services are listed in Table 4 below.

Table 4:
Thirteen Other Services with the Highest Volume Billed to Non-affiliated Third Parties during the Audit Test Period.

| Line | USOC | Description |
|------|-------|--|
| 1 | RSX | Centrex Station Line |
| 2 | NNK | Calling Name & Number Delivery |
| 3 | 32104 | Directory Assistance Intrastate |
| 4 | BC&I | Billing and Collections |
| 5 | JZ3PD | Interoffice Channel Mileage – Flat Rate 1.544 |
| 6 | NPU | Non-Published Listing |
| 7 | ND2 | Direct Inward Dialing Service – Central Office – Electronic Switching System – Central Office Trunk Termination – Two-way Digital; With Answer Supervision |
| 8 | 23505 | Last Call Return |
| 9 | BAFHB | Integrated Services Digital Network (ISDN) Flat Rate Package |
| 10 | 1FB | Flat Line Business |
| 11 | AFK | Additional Business Line |
| 12 | Z4D | ISDN |
| 13 | PT352 | ISDN Dedicated Trunking |

Management represented that these 13 services are billed to both the Section 272 Affiliates and non-affiliated entities from the Billing, Collection and Invoice system (BC&I) and Customer Record Information System (CRIS). Management further represented that for the services billed from each system, these same services are billed to both the Section 272 Affiliates and non-affiliated entities and no different system is used to bill these services to non-affiliated entities.

1. For each service listed in Table 4 above, obtained rate tables used to bill the Section 272 Affiliates from the BC&I billing system for one of the services and the CRIS system for 12 of the services and compared the rates, discounts, surcharges and late fees listed in the rate tables to current tariff or agreement rates.

Noted the following:

- For the one service, BC&I, billed from the BC&I system, compared 2,464 rates listed in the rate table used to bill the Section 272 Affiliates to tariffs or agreements. No differences were noted.
- For the 12 services billed from the CRIS system, compared 1,782 rates listed in the rate table used to bill the Section 272 Affiliates to tariffs. Noted 103 differences. Noted that 16 of these 103 differences were due to no specific mention of "National Directory Assistance" in the applicable tariffs; however, the tariffs did state "The Company furnishes directory Assistance Service whereby customers may request assistance in determining telephone numbers within or outside this state." Differences are listed on Attachment A-6.
- For three of the 12 services billed from the CRIS system, compared 38 rates listed in the rate table used to bill the Section 272 Affiliates to agreements. Noted 11 differences. Differences are listed on Attachment A-6.

Noted that 4 of the 13 services were billed under agreements to both the Section 272 Affiliates and non-affiliates. For rate table rates for the four services billed under agreements, BC&I, JZ3PD, RSX and Z4D, compared the rate table rates used to bill to the Section 272 affiliates to the rate table rates used to bill nonaffiliates. Noted the following:

- For BC&I, compared Section 272 Affiliates' rates to 243 non-affiliate rates. Noted that 20 of the 243 non-affiliate rates (8.2%) were greater than the Section 272 Affiliates' rates.
- For JZ3PD, RSX and Z4D, compared Section 272 Affiliates' rates to 170,866 non-affiliate rates. Noted that 11,739 of the 170,866 non-affiliate rates (6.9%) were greater than the Section 272 Affiliates' rates.

Management represented that the following procedures were in place for updating rate tables:

- **BC&I System** – The account executive of BC&I sends a request for an update of a rate in the rate table. A rate table update form is filled out with the details such as product, state, bill codes, bill phrase, interstate rate and intrastate rate. The request is sent to the Qwest BOC's Wholesale Markets department (the Interexchange Carrier Service Center (ICSC)), who makes the changes to the rate table through on-line screens based on the account executive's request. Updating the rate table is followed by the verification process. Once the rate table is updated, a rate table update report is created to verify that the rate table change was keyed correctly. In addition to displaying the rate changes, various edits are performed between the new updates and the rate table itself. A rate element verification sheet is created and sent to the account executive for verification and information.
 - **CRIS** – Requests for rate table updates are presented to the CRIS regions in the form of information technology (IT) approved projects by various business units and IT intake organizations. The project information provided includes: project identifications, charge codes, the client requestor name and phone number, the detailed description of the change including before and after information for each USOC or rate and the effective date of the approved rate change. As the development unfolds, validation is performed at each significant step. When implemented by release or in a scheduled update, a final verification is performed again to ensure compliance with authorizations and client request. Once confirmed, each intake organization is notified of implementation.
2. For the billing systems listed in procedure a. above, documented in the workpapers the practices and processes that the Qwest BOC has in place to ensure the billing system bills the Section 272 Affiliate and non-affiliates at the same rates and under the same terms and conditions. Documented, in Attachment A-5, the Qwest BOC's internal controls and procedures designed to ensure non-discriminatory billing related to billings from these systems.
- b. For the three months selected in procedure a. above, obtained a listing of the transactions billed to the Section 272 Affiliates for each of the 13 services listed in Table 4. Randomly selected 10 transactions per service for a total of 130 billed transactions. For the 130 transactions selected, tested for the proper application of the rate tables in effect at the time of the transaction, including all applicable discounts, surcharges and late fees. Compared the rates used to calculate the billed transaction to

the corresponding rates on the rate tables. For the 130 billing transactions, noted the following:

- For 2 of the 130 transactions, the rate charged did not agree with the rate per the applicable rate table.
- For 1 of the 130 transactions, the rate was not applied to all the units on the transaction.
- For 127 of the 130 transactions, the rates charged agreed with rates from the applicable rate tables.

For the 130 billing transactions, obtained documentation that the Qwest BOC recorded the transaction as revenue and recorded the payment for the transaction. Also obtained documentation that the Section 272 Affiliates expensed the transaction and that the same amount was paid by the Section 272 Affiliates. No differences were noted.

- c. This procedure was not performed as the same systems are used to bill both the Section 272 Affiliate and non-affiliated entities for the services listed in Table 4 above. See testing in procedure a. above.
 - d. This procedure was not performed as the same systems are used to bill both the Section 272 Affiliate and non-affiliated entities for the services listed in Table 4 above. See testing in procedure b. above.
5. Documented the Qwest BOC's process for disseminating information pursuant to CC Docket No. 96-149, First Report and Order, Para. 16, about network changes, the establishment or adoption of new network standards and the availability of new network services to each Section 272 Affiliate and to non-affiliated entities. Noted that the following tools were used by the Qwest BOC to disseminate network information about network changes, new or changed network standards, and the availability of new network services. QSC represented that all of the following tools are available to both Qwest affiliates and non-affiliates.
- State and Federal Tariffs – Access to pending and effective tariff documents can be found at <http://tariffs.qwest.com:8000>. The tariffs provide affiliated and non-affiliated entities with Qwest BOC products or service offerings, descriptions and pricing.
 - Local Exchange Routing Guide (LERG) – Telcordia (www.telcordia.com) owned and maintained database. The LERG database provides lists of all end office switches and describes their relationship to tandem switches and is used to understand routing and interconnection architectures.

- Qwest Technical Publications developed by the Qwest BOC from existing national and international standards. Describes the architecture, physical interfaces, and detailed technical characteristics of the Qwest BOC products and services. Includes products/services descriptions, technical information and requirements, technical diagrams, network channel and network channel interface codes. Qwest Technical Publications are available at <http://qwest.com/techpub>.
 - The InterCONNECTION (ICONN) website located at <http://qwest.com/iconn/> provides information on the Qwest BOC's local network, including the following switch information:
 - i. Current Tandem List – updated monthly
 - ii. Central Office Find – updated weekly/monthly
 - iii. NXX Activity Reports
 - iv. Switch Features Availability – updated monthly
 - v. Switch Conversion and Service Order Embargo Detail – updated weekly
 - vi. Switch Software Upgrade Detail – updated weekly
 - vii. Usage Data – updated annually
 - viii. Loop Data – updated monthly
 - ix. Digital Loop Carrier (DLC) Remote Terminal (RT) Cabinets by Distribution Area (DA) – updated monthly
 - x. Outside Plant & Interoffice Facility Augments greater than \$100,000 – updated monthly
 - xi. Universal Digital Loop Carrier – updated monthly
 - Network Disclosures Notices are located at <http://www.qwest.com/disclosures>, and is a web-based tool designed to provide public notice of changes in the information necessary for the transmission and routing of services using the Qwest BOC's facilities or networks, as well as any other changes that would affect the interoperability of those facilities or networks. Disclosure is made at the "make/buy" decision point, defined as a firm business decision to move forward with a product or service that relies on a new or changed basic network interface, a decision to make for itself, or procure from another entity, any product the design of which affects or relies on a new or changed network interface.
6. For the call centers observed in Procedure 7 below, obtained and inspected scripts that Qwest BOC's customer service representatives recite to new customers calling to establish new local telephone service or move an existing local telephone service to another location within the BOC in-region territory. Reviewed the scripts and noted that the scripts contained the following:
- language that attempts to sell interLATA services;

- language that informs the consumers that there are other providers of interLATA services; and
- language offering to identify the other providers to the consumer if they are interested.

Obtained and inspected the written content of the Qwest BOC Internet site for on-line ordering of new residential service or to move an existing residential local telephone service, www.qwest.com, noting that the consumers are informed on the Internet that there are other providers of interLATA service. Further noted that the residential customer can click on a link that lists the other providers randomly. Noted that if a Qwest Bundled option is selected during the on-line ordering process, then consumers are not informed of other providers of interLATA service. Noted that the Qwest BOC Internet site does not accept orders for small or large business service. The Qwest BOC website informs business customers that they must call in to request service.

7. Obtained a complete listing as of June 30, 2005, of all Qwest BOC call centers. From the listing, with Qwest's assistance, compiled a list of Qwest BOC call centers responding to inbound callers requesting to establish new local telephone service or to move an existing residential local telephone service within the BOC in-region territory. From this listing, identified and grouped each call center by type of customers: "Consumer" or "Business." Determined that the Qwest BOC had a total of 10 call centers that routinely responded to calls for new or moved service (seven Consumer call centers and three Business call centers). Also determined that the Qwest BOC had 13 call centers (ten Consumer call centers and three Business call centers) that incidentally responded to calls for new or moved service.

The Qwest BOC represented that there were no new Qwest BOC call centers responding to inbound callers requesting to establish new local telephone service or to move an existing local telephone service to another location within the BOC in-region territory that became operational between June 30, 2005, and the end of the Audit Test Period.

- a. Selected all 7 Consumer call centers and all 3 Business call centers from the list of 10 call centers obtained above that routinely responded to requests for new or moved service. At each selected call center, attempted to listen in on at least 10 calls from callers requesting to establish new local telephone service or to move an existing local telephone service. Observed that most of the call centers selected received all types of customer service calls, including calls for new or moved service. Listened in on a total of 540 calls at 10 call centers. Out of 540 calls observed, determined that in 111 calls¹⁷ the customer requested new or moved service, the Qwest BOC marketed long distance service and the Qwest BOC was

¹⁷ Observed at least nine calls for new or move service at each of the ten selected call centers in which the Qwest BOC marketed Qwest long distance service.

required to inform the customer of their right to choose long distance providers. For the 111 calls, noted the following:

- For 91 calls, the customer service representative marketed Qwest long distance service and informed the customer of other providers of intraLATA and/or interLATA services and informed the customer of other long distance providers and of their right to make the selection.
 - For seven calls, the customer service representative marketed Qwest long distance service, but the customer interrupted or immediately refused all long distance service before the customer service representative informed the customer of their right to choose a long distance provider.
 - For 13 calls, the customer service representative marketed Qwest long distance service but did not inform the customer of their right to choose a long distance provider.
- b. From the listing of 13 call centers obtained above that incidentally responded to inbound callers requesting to establish new local telephone service or to move an existing local telephone service (such as sales and service centers that usually receive customer inquiries from existing customers), randomly selected three Consumer centers (Helena, Montana, Phoenix, Arizona and Pocatello, Idaho) and two Business call centers (Denver, Colorado and Phoenix, Arizona). Listened in on a total of 100 calls, 20 calls per center. In the 100 calls observed, 6 calls were requests for new or moved service. For the six calls noted the following:
- For three calls, the customer representative marketed Qwest long distance service and informed the customer of other providers of intraLATA and/or interLATA services and informed the customer of other long distance providers and of their right to make the selection.
 - For two calls, the customer representative marketed Qwest long distance service, but the customer interrupted or immediately refused all long distance service before the representative informed the customer of their right to choose a long distance provider.
 - For one call, the customer representative marketed Qwest long distance service but did not inform the customer of their right to choose a long distance provider.
- c. Accessed the Qwest Internet site, www.qwest.com, for residential on-line ordering of long distance service. Walked through the steps a residential customer must take to order long distance service from the Section 272 Affiliates. Observed that

the customer is informed of the right to select the interLATA services provider of his/her choice, and of the existence and/or list of other interLATA service providers. Noted that the steps for on-line ordering are as follows:

1. Customer selects state
2. Customer selects product plan
3. Customer selects residential service
4. Screen displays process overview to customer
5. Customer enters his name and service address
6. Customer selects products and services
7. Qwest offers 4 choices.
 - a) *"Qwest Choice Home" with "Qwest Choice Unlimited Long Distance"*
 - b) *"Qwest Choice Home" with "Qwest DSL Deluxe with MSN Premium"*
 - c) *"Qwest Choice Home" with "Qwest Choice Unlimited Long Distance" with "Qwest DSL Deluxe with MSN Premium"*
 - d) *"View all of our Services"*
8. Customer selects local phone number
9. Customer selects features associated with local service
10. Customer selects local toll service carrier and long distance carrier
11. Customer reviews order
12. Customer enters credit information
13. Customer selects installation date
14. Customer submits order

Noted that Qwest's on-line ordering process for residential service informs the customer of his or her right to choose any interLATA services provider and provides the customer a list of such choices if the customer selects choices "b" or "d" above in Step 7. Noted that Qwest's on-line ordering process does not inform the customer of his right to choose any interLATA service provider if the customer selects a Qwest bundled package (choices "a" or "c" from Step 7 above).

Noted that Qwest does not offer on-line ordering for new or move business service.

8. Requested a listing of all inbound call centers in which representatives of third-party contractors of the Qwest BOC respond or might incidentally respond to customers requesting to establish new local telephone service or to move existing service as of June 30, 2005. The Qwest BOC represented that there were four call centers: Center Partners (Coeur D'Alene, Idaho), Focus (Ogden, Utah), TCIM (Tucson, Arizona), and NuComm (Oromocto, Nebraska) in which representatives of third-party contractors of the Qwest BOC respond or might incidentally respond to customers requesting to establish

new local telephone service or to move existing local telephone service. Observed 100 calls (25 calls at each call center) and noted that 11 of the 100 calls were for new or transferred service, and in 9 of the 11 calls, representatives marketed Qwest long distance service. For the nine calls for new or transferred service where Qwest long distance service was marketed, noted the following:

- In six calls, noted that the representatives informed the customers of their right to select the interLATA services provider of his/her choice, the existence of other interLATA service providers and offered to provide a list of other providers.
- In two calls, the customer refused all long distance service before the representative informed him of the right to choose carriers.
- In one call, the representative marketed Qwest long distance service but did not inform the customer of their right to choose a long distance provider.

The Qwest BOC represented that there were no new third-party call centers responding to inbound callers requesting to establish new local telephone service or to move an existing local telephone service to another location within the BOC in-region territory that became operational between June 30, 2005, and the end of the Audit Test Period.

9. Identified the controls utilized by the Qwest BOC and the third-party contractors hired for inbound telemarketing to assure compliance by the Qwest BOC with Section 272. Compared the Qwest BOC controls with controls in place at the Center Partners, Focus, NuComm, and TCIM call centers. The controls differences noted are documented in Table 5 below:

Table 5:
Call Center Controls for Section 272 Compliance

| Control & Description | In Place at Qwest BOC Call Centers | In Place at Center Partners Call Center | In Place at Focus Call Center | In Place at NuComm Call Centers | In Place at TCIM Call Centers |
|--|---|--|--|--|--|
| C-Plus Script Pop-Up – The ordering system displays a pop-up of the 272 script that the consultant must review prior to proceeding with the order. | Yes | Yes | Yes | Yes | Yes* |

| Control & Description | In Place at Qwest BOC Call Centers | In Place at Center Partners Call Center | In Place at Focus Call Center | In Place at NuComm Call Centers | In Place at TCIM Call Centers |
|--|---|--|--|--|--|
| Consultant Observations –The consultant is observed by their immediate supervisor and other quality assurance leads. The purpose of the observations is to identify whether the consultants displaying specific behaviors including whether they are meeting regulatory requirements such as reading the 272 script. | Yes | Yes | Yes | Yes | Yes |
| Consultant Accountability and Coaching – Consultants are held personally accountable for their actions and for reading required regulatory scripts (e.g., the 272 script). When consultants do not meet these requirements, they are reprimanded, appropriately coached, and potentially terminated based upon the number of offenses and the severity of the offense. | Yes | Yes | Yes | Yes | Yes |
| Consultant Training and Testing – Various levels of training are required for each consultant. Section 272 regulatory requirements are taught and tested during these training sessions. | Yes | Yes | Yes | Yes | Yes |
| Call Center Quality Audits and Compliance Reporting – Periodic audits are performed on the call center either by Qwest or an outside party to validate that the call centers are properly identifying, documenting, resolving and reporting compliance-related issues. | Yes | Yes | Yes | Yes | Yes |

* Note: The C-Plus ordering system came into operation during the summer of 2005.

10. Obtained and reviewed a copy of the contract documents between the Qwest BOC and the following third-party contractors that provided inbound telemarketing: Focus Communications, Inc.; TCIM Services, Inc.; NuComm International; and Center Partners. Documented the following controls included in the third-party contract documents related to section 272:

- Training – require the third-party calling center to train all employees on using the appropriate Qwest-provided call scripts.
- Performance Management Requirements – makes the third-party calling centers responsible for tracking and management of representatives' performance to standards as set forth in the contract and for ensuring that programs are managed and monitored daily.
- Supplier Systems – third-party calling centers must use Qwest's on-line scripting tools and provide the ability to adjust scripts on-line. *(This control was not listed in the Center Partners contract documents)*
- Adherence to Scripts – require third-party call centers to strictly adhere to scripts provided by Qwest. *(This control was not listed in the Center Partners contract documents)*
- Monitoring Requirements – allows Qwest to monitor third-party call centers' representatives.
- Required Use of Sales Recording – require third-party call centers to digitally record, retain and review all sales acceptances. *(This control was not listed in the Center Partners contract documents)*

OBJECTIVE VIII. Determine whether or not the BOC and an affiliate subject to section 251(c) of the Act have fulfilled requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provide such telephone exchange service and exchange access to itself or its affiliates.

1. Documented in the working papers the practices and processes the Qwest BOC has in place to fulfill requests for telephone exchange service and exchange access service for the Section 272 Affiliates, other affiliates and non-affiliates in each state where the Qwest BOC has been authorized to provide in-region interLATA services. The Qwest BOC represented that the practices and processes that it has in place to fulfill requests for telephone exchange service and exchange access service are the same in all states served by the Qwest BOC.

For telephone exchange service, noted a difference in the processes for ordering for affiliates and non-affiliates. Affiliates order telephone exchange services differently than non-affiliated Interexchange Carriers (IXCs). All Qwest affiliates order telephone exchange service through the Qwest Internal Communications Service Delivery (ICSD) group. Service order requests are placed via the Intranet. The ICSD converts the requests and inputs them into the Qwest BOC's service order processor (SOP). As needed, ICSD personnel are available for assistance. Non-affiliated IXCs place orders for telephone exchange services through the Qwest Wholesale Service Delivery group. Standardized ordering forms have been developed for customer use; and forms, instructions and links to exchange product information are available on the wholesale website at: <http://www.qwest.com/wholesale/customerService/genexchange.html>. Completed forms are submitted by the customer to the Qwest BOC via email or fax gateway. Qwest BOC wholesale personnel are available for any customer assistance as needed.

For telephone exchange service, noted that the Qwest BOC provisions requests for all affiliates and non-affiliates in the same way.

For exchange access services, noted that the Qwest BOC has the same practices and processes in place to fulfill service requests from the Section 272 Affiliates, other affiliates and non-affiliates.

The following Qwest BOC internal controls and procedures are documented within the Qwest BOC's practices and procedures and are designed to implement the Qwest BOC's duty to provide nondiscriminatory service.

- The procedures do not make reference to customer type, therefore customer order activity is processed without regard to affiliate or non-affiliate status. These same standards are applied to customer requests for ordering service, requesting maintenance or repair services, and service change requests.

(PMs), listed in Table 6 below, for the Section 272 Affiliates, BOC and other affiliates and non-affiliates from January 2004 through December 2005.

Table 6:

Section 272(e)(1) Performance Metrics Reported by Qwest

| Performance Metric | Reported Section 272 Affiliates |
|---|--|
| OP-3-272 Installation Commitments Met | QCC |
| OP-4-272 Average Installation Interval | QCC |
| PO-5-272 Firm Order Confirmations On Time | QCC |
| PC-1-272 % PIC Change Requested w/in 24 hours | QCC, QLDC |
| MR-5-272 All Troubles Cleared w/in 4 hours | QCC |
| MR-6-272 Mean Time to Restore | QCC |
| MR-8-272 Trouble Rate | QCC |

Obtained and included in the workpapers, the methodology and business rules used by Qwest to report each of these measures. Noted that the methodology and business rules are titled Service Performance Measurement Descriptions (SPMD), 14-State 272 SPMD, Version 2.2, dated May 28, 2004, and is publicly available at:

http://www.qwest.com/about/policy/docs/qcc/documents/Service_Performance_Measurement_Description_060104.pdf.

Management represented that the Qwest BOC's section 272(e)(1) reporting is a series of processes and programs that generate and publish results in the provisioning and maintenance of service between the Qwest BOC and other affiliates, the Section 272 Affiliates and non-affiliated IXC's. The reports are summaries and statistics derived from a series of transactional data sets, i.e. access service requests, orders, and tickets. Each data set, called an "Adhoc" file, holds the necessary raw data to calculate the measure. The section 272 statistical program, STATS.sas, summarizes and calculates results and applies the statistical tests to determine parity. The section 272(e)(1) reporting architecture utilizes SAS coding to produce performance results and statistics. The results and statistics are comparable across states, companies and products. The Qwest BOC reports performance results for the services it provides to the Section 272 Affiliates, the BOC and other affiliates and non-affiliates publicly at the regional level and has the state level results available upon request.

4. Obtained the performance data maintained by the Qwest BOC for the months of January 2004 to December 2005, by month, by state, indicating time intervals for processing of orders (for initial installation requests, subsequent requests for improvement, upgrades, or modifications of service or repair and maintenance),

provisioning of service, and performance of repair and maintenance services for the Section 272 Affiliates, BOC and other affiliates and non-affiliates for exchange access services and PIC charge orders.

During the Engagement Period, the Qwest BOC did not report Section 272(e)(1) performance measures for the exchange telephone service and unbundled network elements categories. The Qwest BOC represented that during the Engagement Period it did not report Section 272(e)(1) performance measures for the exchange telephone service category since the Section 272 Affiliates did not resell local service. The Qwest BOC also represented that during the Engagement Period that it did not report Section 272(e)(1) performance measures for the unbundled network elements category since the Section 272 Affiliates did not purchase unbundled network elements from the Qwest BOC. The Qwest BOC also represented that for the PIC change measure, the comparison will be non-affiliates compared to Section 272 Affiliates because there are no PIC Change transactions for BOC and other affiliates.

From this data, prepared comparisons, shown in Attachment A-7, of the differences in time in fulfilling each type of request for the same service for the Section 272 Affiliates, BOC and other affiliates and non-affiliates. Prepared linear graphs, at Attachment A-8, for each state, for each performance measure, for each service, over the Engagement Period, depicting the performance for the Section 272 Affiliates, BOC and other affiliates and non-affiliates.

Requested explanations from Qwest where fulfillment of requests from non-affiliates took longer than for the Section 272 Affiliates. The Qwest BOC represented that when reviewing QCC and QLDC performance results Qwest focuses on the parity score. A parity score is a numeric indication of whether the reported difference in results is statistically significant.¹⁹ A negative parity score means the result is not statistically significant while a parity score greater than or equal to zero indicates the difference between the BOC and other BOC affiliates and non-affiliates or Section 272 Affiliates and non-affiliates is statistically significant.

Qwest represented that all applicable parity scores were provided and are included on Attachment A-7. Qwest does not compute parity measures in the following circumstances:

- No results for either the non-affiliate or Section 272 Affiliate to compare with one another.
- Performance of both at or near 100% or 0% in either comparison.
- All the data points are the same.

¹⁹ The formula is $(z_score - critical_z) / critical_z$. The critical_z value is 1.645 for a 95% confidence level.

- Once a service order is created by a customer and enters the SOP, the business rules associated with the product ordered are applied to the order, regardless of affiliate or non-affiliate customer status.
 - Service orders are tracked by unique identifiers (i.e., order number, circuit assignment code). Business rules tell the systems how to handle the order based on what the customer ordered.
 - Service orders are queued by critical dates, such as due date, applied by the Qwest BOC's assignment systems. Due dates are assigned on a first-in, first-out methodology. Intervals are assigned based on the product type, product quantity, geographic density, facility availability and human resource availability.
 - Systems are designed to manage the flow of work activity based on the type and quantity of service ordered, not on the affiliate or non-affiliate status of the customer. This management of workflow is described in the Standard Interval Guides located at <http://www.qwest.com/wholesale/guides/sig/index.html>. Manual order activity is also managed based on the type and quantity of service ordered, not on the type of customer.
2. For each state where Qwest has been authorized to provide in-region interLATA services, documented in the workpapers are the processes and procedures followed by the Qwest BOC to provide information regarding the availability of facilities used in the provision of special access service to the Section 272 Affiliates, the Qwest BOC and other affiliates¹⁸ and non-affiliates. Noted no differences in the processes and procedures used to provide information regarding availability of facilities used to provision special access service to the Section 272 Affiliates, other affiliates and non-affiliates. The Qwest BOC represented that no employees of the Section 272 Affiliates or other affiliates have access to, or have obtained information regarding, special access facilities in a manner different from the manner made available to non-affiliates during the Engagement Period.
 3. For each state where Qwest has been authorized to provide in-region interLATA services, obtained written methodology that the Qwest BOC followed to document time intervals for processing of orders (for initial installation requests, subsequent requests for improvement, upgrades, or modifications of service, or repair and maintenance), provisioning of service, and performance of repair and maintenance services for the Section 272 Affiliates, BOC and other affiliates and non-affiliates for exchange access services and PIC change orders.

During the Engagement Period Qwest tracked monthly results by state (starting in the first full month following Section 271 authorization) for the following performance metrics

¹⁸ The term "BOC and other affiliates" referred to in Objective VIII, Procedures 2 through 6 includes the provision of service by the Qwest BOC to its retail and wholesale customers and to other non-Section 272 Affiliates of the Qwest BOC.